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SUBJECT: EGYPT: GROWING ECONOMIC RELATIONS WITH CHINA

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Classified by DCM Stuart E. Jones for reasons 1.4 (b) and (d).

¶1. (C) Summary: Egyptian-Chinese relations have expanded over the last several years, primarily in the economic realm. Egypt is courting Chinese trade and investment but is wary that China could undercut Egypt in low-cost, labor-intensive sectors, complicating Egyptian efforts to combat persistent unemployment. Egyptian contacts highlight the Chinese interest in extractive industries and the increase in cheap, Chinese-made goods, though quality of Chinese goods is still a concern. GOE officials also look to China for alternative lessons in economic development, particularly given sensitivities to western pressure for comprehensive political and economic reform. Meanwhile, China sees Egypt as an important player to protect its economic, and increasingly political, interests in Africa, and to a lesser extent in the Middle East. GOE officials hint that expanded relations with China could eventually offset deteriorating relations with the U.S., though Egypt remains a strong U.S. partner on economic reform and regional security. End summary.

A "Mature" but not "Deep" Relationship

¶2. (SBU) Egyptian government officials, academics, and researchers consistently describe Egyptian-Chinese relations as "mature" and "diverse" but not "deep." Egypt was the first African or Arab country to recognize the People's Republic of China in 1956, but relations so far have been focused on economics. Egyptian President Hosni Mubarak has visited China nine times since becoming Vice President in 1975, most recently in a November 2006 visit that saw the signing of several economic cooperation agreements.

More Chinese in Egypt

¶3. (U) Both the Chinese Embassy in Cairo and the Egyptian Ministry of Foreign Affairs estimate that about 55,000 Chinese tourists visited Egypt in 2006, a 30 percent increase over the previous year. (Note: Chinese tourism represented about 0.5 percent of Egypt's 9.8 million tourists in 2006, compared to 3.3 percent from the U.S. End note.) Estimates of the number of Chinese expatriates in Egypt vary, but Chinese and Egyptian officials and local academics put the number at between 6,000 and 12,000. (Note: There are about 37,000 U.S. citizen expatriates in Egypt. End note.) Anecdotal information indicates that more Egyptians are going to China as well, particularly for business purposes. Travel is becoming easier; Egyptian national carrier EgyptAir recently begun daily flights to China.

Chinese Exports Lead Trade Increase

14. (SBU) China's emergence into world markets is driving increased trade, but Egypt is also actively diversifying its traditionally western-oriented trade relations. Mohamed Mansour Fahmy, Vice Minister for Foreign Relations at the Ministry of Trade and Industry, told emboff that at the current rate China will be Egypt's largest single trading partner by 2010, with 2006 bilateral trade at \$3.3 billion, or about nine percent of Egypt's total trade. (Note: U.S. - Egypt bilateral trade was \$6.5 billion in 2006. End note.) The rise is mostly due to Chinese exports, he said, raising fears that Chinese products will push out indigenous Egyptian ones. Tellingly, Minister of Trade and Industry Rachid Mohamed Rachid announced on July 30 that Egypt signed an anti-dumping MOU with China, and was setting up a process to receive dumping complaints about Chinese products from the Egyptian business community.

15. (SBU) Egypt is aiming to increase its exports to China from \$270 million in 2006 to \$1 billion by 2010, Mansour said. (Note: Egyptian exports to the U.S. were \$2.4 billion in 2006. End note.) To do so, Egypt is attempting to become a source of higher-quality goods. For instance, as marble is one of Egypt's largest exports to China, Egypt is moving to exporting semi-finished, instead of raw, marble.

Lingering Concerns Over Chinese Quality

16. (SBU) Although Chinese products are increasing in Egypt - even some Pharaonic trinkets sold to tourists are now produced in China - there are concerns about their quality. Some, including MFA Deputy Assistant Minister for East Asia

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Magdi Amer, say that while Chinese products have historically been poorly made, now they are "not bad." However, earlier this year, U.S. companies General Electric and Electromotive Diesel beat out Chinese competition to each sell 40 new locomotives to Egyptian National Railways, likely due in part to those companies' strong reputations for safety - an issue of serious political import for the GOE - in comparison to their Chinese competitors (reftel).

Investment Limited, Competing Over Low-Skilled Jobs

17. (SBU) Chinese foreign direct investment (FDI) in Egypt is currently a mere \$300 million, and focused on information and communications technology (ICT) and energy, according to Amer. (Note: U.S. FDI in Egypt was \$4.1 billion in 2005. End note.) Egyptian investment in China is an even lower \$50 million, he said, mostly in petrochemicals, textiles, and electronics. Chinese ICT giants Huawei and ZTE both have their regional headquarters in Cairo. On energy, Chinese entrance into the upstream petroleum sector has been limited partly due to a scarcity of available concessions; however, the Chinese are seeking inroads into oil field and engineering services.

18. (SBU) Egypt is courting more Chinese direct investment but is proceeding cautiously to ensure that new projects create Egyptian jobs in low-cost, labor-intensive sectors, in order to dent Egypt's (unofficial) 20 percent employment rate. Mansour said that Egyptian requests for more Chinese investment in labor-intensive sectors such as textiles and footwear are stalled over the Chinese government's condition that 20 percent of the labor must be Chinese. The GOE hopes that the lure of better access to western markets, through Egyptian trade agreements such as the Qualified Industrial Zones (QIZ) agreement with the U.S. and Israel, and free trade agreements with E.U. countries, will convince the Chinese to forgo their labor requirements, according to Mansour.

¶9. (SBU) Amer said that Egypt is also courting Chinese banks, in the hope that increasing financial cooperation will help raise bilateral investment in both countries. The Egyptian Bank Al Ahly recently began operations in China, he said, and made a deal with "a Chinese bank" (nfi) to facilitate Chinese customers' use of Bank Al Ahly ATMs in Egypt.

"Fresh" Development Ideas

¶10. (SBU) Egyptian contacts uniformly highlighted that since China is still a developing country, it is, in Amer's words, a source of "very relevant development experience" for Egypt. Mustafa Kamel El Sayyid, Professor of Asian Studies at Cairo University, told emboff that GOE officials see China as a model for economic development that does not call for democratic reform and increasing respect for human rights. GOE officials consider this model a welcome alternative to western pressure for comprehensive political and economic reform, he said.

Egypt Important to Chinese Interests in Africa

¶11. (SBU) Egyptian contacts say that China needs Egypt to help secure its interests in Africa. Most notable, MFA Deputy Assistant Minister for Regional African Cooperation Taher Farahat told emboff, is China's interest in maintaining access to oil and minerals. China uses the Forum on China-Africa Cooperation (FoCAC), which will next meet in Cairo in 2009, to guarantee resource access, Farahat said, though also to organize aid to Africa for infrastructure, combating infectious diseases, and education. According to Amer, as China has taken more criticism for its policy towards Sudan over the crisis in Darfur, China seeks Egyptian and other African support through FoCAC to develop and push policy on UN Security Council issues, such as authorizing a peacekeeping force for Darfur. Amer echoed Chinese embassy Political Counselor Chen Ming Jian, who told emboff that China puts its bilateral relationship with Egypt at the forefront of its Middle East policy. However, Amer opined that Egypt's importance to China in the Middle East was secondary to its importance in Africa, as China has access to energy bilaterally with other Arab oil-producing states.

Minimal Military Cooperation

¶12. (SBU) Though Egyptian and Chinese contacts are reluctant
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to discuss military relations in detail, they claim that cooperation is minimal. Amer said that there is cooperation, but it is "not deep," as most of Egypt's military equipment is western. There are signs of increasing military-to-military contact, including high-level visits, but concrete information on this issue is limited. The most extensive example of cooperation cited was that of a Chinese aircraft that Egypt uses for training purposes, "but even that has a U.S. engine," according to Amer.

Comment: Egypt Hedging for Poorer U.S. Relations

¶13. (C) GOE officials have hinted that closer ties with China - not to mention Russia, other central Asian countries, and even some E.U. countries - might offset deteriorating relations with the U.S. over pressure for political reform. Indeed, GOE officials seem to look to China for economic development lessons that leave the question of political reform unanswered. Nevertheless, they still work closely

with western interlocutors on economic reform, and remain a strong partner on regional issues such as Israel/Palestine, Iraq, and Iran.

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